

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Chelsea Area Construction Agency	County Washtenaw
Audit Date February 28, 2006	Opinion Date May 11, 2006	Date Accountant Report Submitted To State: August 17, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address Suite 400, 1000 Oakbrook Drive		City Ann Arbor	State MI
ZIP 48104			
Accountant Signature <i>Plante & Moran, PLLC</i>			

Chelsea Area Construction Agency

**Financial Report
with Supplemental Information
February 28, 2006**

Chelsea Area Construction Agency

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Independent Auditor's Report

To the Board of Directors
Chelsea Area Construction Agency

We have audited the accompanying basic financial statements of Chelsea Area Construction Agency as of and for the year ended February 28, 2006, as listed in the table of contents. These basic financial statements are the responsibility of Chelsea Area Construction Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Chelsea Area Construction Agency as of February 28, 2006 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

May 10, 2006



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Chelsea Area Construction Agency

General Fund Balance Sheet/Statement of Net Assets February 28, 2006

	General Fund	Soil Erosion Fund	Balance Sheet - Modified Accrual	Adjustments (Note 7)	Statement of Net Assets - Full Accrual Basis
Assets					
Cash and cash equivalents (Note 2)	\$ 449,592	\$ 9,099	\$ 458,691	\$ -	\$ 458,691
Due from General Fund	-	40,319	40,319	(40,319)	-
Other current assets	3,069	-	3,069	-	3,069
Capital assets being depreciated (Note 3)	-	-	-	14,312	14,312
Capital assets not being depreciated (Note 3)	-	-	-	408,830	408,830
Total assets	<u>\$ 452,661</u>	<u>\$ 49,418</u>	<u>\$ 502,079</u>	382,823	884,902
Liabilities					
Deposits	\$ -	\$ 19,250	\$ 19,250	-	19,250
Accrued liabilities	1,054	-	1,054	-	1,054
Due to Soil Erosion Fund	40,319	-	40,319	(40,319)	-
Compensated absences (Note 1)	-	-	-	32,356	32,356
Total liabilities	41,373	19,250	60,623	(7,963)	52,660
Fund Balance					
Designated for construction (Note 1)	400,000		400,000	(400,000)	-
Unreserved and undesignated	11,288	30,168	41,456	(41,456)	-
Total fund balance	411,288	30,168	441,456	(441,456)	-
Total liabilities and fund balance	<u>\$ 452,661</u>	<u>\$ 49,418</u>	<u>\$ 502,079</u>		
Net Assets					
Invested in capital assets - Net of related debt				423,142	423,142
Unrestricted				409,100	409,100
Total net assets				<u>\$ 832,242</u>	<u>\$ 832,242</u>

Chelsea Area Construction Agency

Statement of General Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended February 28, 2006

	General Fund	Soil Erosion Fund	Revenues and Expenditures - Modified Accrual	Adjustments (Note 7)	Statement of Activities - Full Accrual Basis
Operating Revenue					
Permits	\$ 668,013	\$ 23,265	\$ 691,278	\$ -	\$ 691,278
Miscellaneous	12,340	-	12,340	-	12,340
Interest income	12,765	1,106	13,871	-	13,871
Total operating revenue	693,118	24,371	717,489	-	717,489
Operating Expenditures					
Salaries	114,220	-	114,220	6,519	120,739
Payroll taxes	8,937	-	8,937	-	8,937
Workers' compensation	5,497	-	5,497	-	5,497
Medical expense	32,188	-	32,188	-	32,188
Pension	8,152	-	8,152	-	8,152
Vehicle expense	7,980	-	7,980	-	7,980
Insurance	5,082	-	5,082	-	5,082
Professional services	13,690	-	13,690	-	13,690
Telephone	10,693	-	10,693	-	10,693
Miscellaneous	3,305	3,016	6,321	-	6,321
Inspections	281,642	2,050	283,692	-	283,692
Dues and subscriptions	1,340	-	1,340	-	1,340
Education and training	944	-	944	-	944
Office rent	8,600	-	8,600	-	8,600
Repair and maintenance	1,316	-	1,316	-	1,316
Office expense	22,434	-	22,434	-	22,434
Capital outlay	420,010	-	420,010	(413,805)	6,205
Depreciation	-	-	-	6,079	6,079
Total operating expenditures	946,030	5,066	951,096	(401,207)	549,889
Other Financing Sources (Uses)					
Operating transfers in	19,971	-	19,971	(19,971)	-
Operating transfers out	-	(19,971)	(19,971)	19,971	-
Total other financing sources (uses)	19,971	(19,971)	-	-	-
Net Change in Fund Balances	(232,941)	(666)	(233,607)	401,207	167,600
Fund Balance/Net Assets - March 1, 2005	644,229	30,834	675,063	(10,421)	664,642
Fund Balance/Net Assets - February 28, 2006	<u>\$ 411,288</u>	<u>\$ 30,168</u>	<u>\$ 441,456</u>	<u>\$ 390,786</u>	<u>\$ 832,242</u>

Chelsea Area Construction Agency

Notes to Financial Statements February 28, 2006

Note I - Nature of Organization and Summary of Significant Accounting Policies

Reporting Entity

Chelsea Area Construction Agency (the "Agency") is governed by a board of directors that is appointed by participating municipalities. The Agency was formed effective February 8, 2000 through a cooperative interlocal agreement between the City of Chelsea, Dexter Township, Lima Township, Lyndon Township, Sharon Township, and Sylvan Township. The Agency provides building, electrical, mechanical, and plumbing permits, along with other related services, to residents of these communities.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Agency, there are no component units to be included in these financial statements.

The accounting policies of Chelsea Area Construction Agency (the "Agency") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Chelsea Area Construction Agency:

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Agency's basic financial statements included both government-wide (reporting the Agency as a whole) and fund financial statements (reporting the Agency's major funds).

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Agency's net assets are reported in two parts: invested in capital assets, net of related debt, and unrestricted net assets.

Chelsea Area Construction Agency

**Notes to Financial Statements
February 28, 2006**

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Agency.

The Agency reports the following major governmental funds:

General Fund - The General Fund is the Agency's primary operating fund. It accounts for all financial resources of the Agency, except those related to soil erosion inspections.

Soil Erosion Fund - The Soil Erosion Fund accounts for the activity associated with soil erosion inspections.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and money market accounts.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to General Fund" and "due from Soil Erosion Fund."

Chelsea Area Construction Agency

Notes to Financial Statements February 28, 2006

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Fixed Assets - Generally, capital assets are defined by the Agency as assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5-10 years
Leasehold improvements	15 years
Software	3 years

Compensated Absences (Vacation and Sick Leave) - It is the Agency's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

The following is a summary of the changes to accrued compensated absences during the year ended February 28, 2006:

Balance March 1, 2005	Additions	Balance February 28, 2006
\$ 25,837	\$ 6,519	\$ 32,356

Designated Fund Balance - Designations of fund balance represent tentative management plans that are subject to change. The designated fund balance at February 28, 2006 has been designated by the board of directors for the eventual construction of an office facility for the Agency.

Related Parties - The Agency rents its office space from Sylvan Township for a total of \$750 per month.

Chelsea Area Construction Agency

Notes to Financial Statements February 28, 2006

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Cash

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Agency is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Agency has designated one bank for the deposit of its funds. The Agency has not adopted an official investment policy for unrestricted funds. The Agency's investments are in accordance with the Uniform Management of Institutional Funds Act, Public Act 157 of 1976.

The Agency's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a deposit policy for custodial credit risk. At year end, the Agency had \$385,358 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Agency believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Agency evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk levels are used as depositories.

Chelsea Area Construction Agency

Notes to Financial Statements February 28, 2006

Note 2 - Cash (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Agency has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating
Money market - Sweep investment	\$ 79,090	Not rated

Note 3 - Capital Assets

Capital asset activity of the Agency is as follows:

	Balance March 1, 2005	Additions	Disposals and Adjustments	Balance February 28, 2006
Capital assets not being depreciated:				
Land	\$ -	\$ 343,724	\$ -	\$ 343,724
Construction in progress	-	65,106	-	65,106
Subtotal	-	408,830	-	408,830
Capital assets being depreciated:				
Office furniture and equipment	14,532	4,975	-	19,507
Leasehold improvements	12,225	-	-	12,225
Software	8,035	-	-	8,035
Subtotal	34,792	4,975	-	39,767
Accumulated depreciation:				
Office furniture and equipment	(7,266)	(5,264)	-	(12,530)
Leasehold improvements	(4,075)	(815)	-	(4,890)
Software	(8,035)	-	-	(8,035)
Total accumulated depreciation	(19,376)	(6,079)	-	(25,455)
Net capital assets being depreciated	15,416	(1,104)	-	14,312
Net capital assets	\$ 15,416	\$ 407,726	\$ -	\$ 423,142

Depreciation expense was \$6,079 for the year ended February 28, 2006.

Chelsea Area Construction Agency

Notes to Financial Statements February 28, 2006

Note 4 - Budget Information

The annual budget is prepared and adopted by the Agency board. Subsequent amendments are also approved by the Agency board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at February 28, 2006 has not been calculated. The budget is prepared by the Agency board and is ratified at the last meeting of the previous fiscal year. Amendments to the budget are made by the Agency board during the year. The budget may be amended up to the last day of the current fiscal year. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers are included as revenues and expenditures.

The budget for both the General Fund and Soil Erosion Fund has been adopted on a total fund basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The line item detail contained in the required supplemental information schedules budgetary comparison schedule - General Fund and budgetary comparison schedule - Soil Erosion Fund is for internal use only. In total, the budget overrun in the General Fund is not considered significant. The expenditure overrun is due to consulting fees related to the construction of a new facility.

Note 5 - Risk Management

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Agency has purchased commercial insurance for all such claims.

Note 6 - Defined Contribution Retirement Plan

The Agency provides pension benefits for all its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees become participants in the plan immediately. Employees may make voluntary contributions totaling 4 percent of the employee's includable compensation. The Agency has committed to and is currently making contributions totaling 3 percent of includable compensation. Also, the Agency will make a matching contribution totaling 100 percent of the employee's own contribution. Full vesting takes place immediately for all contributions and related account earnings. The Agency contributed \$8,152 during the current year and employees contributed \$4,659.

Chelsea Area Construction Agency

Notes to Financial Statements February 28, 2006

Note 7 - Reconciliation of General Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Agency's General Fund differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the General Fund balance sheet and statement of revenue, expenditures, and changes in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified accrual basis	\$ 441,456
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and are not reported in the funds	423,142
Compensated absences are included as a liability	<u>(32,356)</u>

Net Assets of General Fund - Full accrual basis	<u>\$ 832,242</u>
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Net Change in Fund Balances - Modified accrual basis	\$ (233,607)
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	413,805
Depreciation	(6,079)

Increase in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	<u>(6,519)</u>
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Change in Net Assets of General Fund - Full accrual basis	<u>\$ 167,600</u>
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Required Supplemental Information

Chelsea Area Construction Agency

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended February 28, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Permits	\$ 495,797	\$ 731,195	\$ 668,013	\$ (63,182)
Miscellaneous	11,111	9,610	12,340	2,730
Interest income	7,992	11,195	12,765	1,570
Operating transfer from other funds	-	-	19,971	19,971
Total revenue	514,900	752,000	713,089	(38,911)
Expenditures				
Salaries	116,500	128,000	114,220	13,780
Payroll taxes	7,700	10,000	8,937	1,063
Workers' compensation	7,100	7,100	5,497	1,603
Medical expense	25,700	32,000	32,188	(188)
Pension	8,000	9,000	8,152	848
Vehicle expense	7,600	7,000	7,980	(980)
Equipment rental	2,500	1,400	-	1,400
Insurance	6,000	4,500	5,082	(582)
Professional services	14,000	60,500	13,690	46,810
Telephone	9,000	10,000	10,693	(693)
Miscellaneous	2,100	11,000	3,305	7,695
Inspections	240,200	258,000	281,642	(23,642)
Dues and subscriptions	2,700	1,400	1,340	60
Education and training	10,000	1,000	944	56
Office rent	9,000	9,000	8,600	400
Repair and maintenance	2,200	1,400	1,316	84
Office expense	12,100	23,060	22,434	626
Capital outlay	32,500	363,242	420,010	(56,768)
Total expenditures	514,900	937,602	946,030	(8,428)
Excess of Expenditures Over Revenues	-	(185,602)	(232,941)	(47,339)
Fund Balance - March 1, 2005	644,229	644,229	644,229	-
Fund Balance - February 28, 2006	<u>\$ 644,229</u>	<u>\$ 458,627</u>	<u>\$ 411,288</u>	<u>\$ (47,339)</u>

Chelsea Area Construction Agency

Required Supplemental Information Budgetary Comparison Schedule - Soil Erosion Fund Year Ended February 28, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Permits	\$ 25,000	\$ 23,935	\$ 23,265	\$ (670)
Interest income	-	942	1,106	164
Total revenue	25,000	24,877	24,371	(506)
Expenditures				
Inspector	10,000	1,900	2,050	(150)
Clerical	5,000	2,080	2,080	-
Office expenses	1,000	26	26	-
Printing	600	-	-	-
Bank charges	250	-	10	(10)
Miscellaneous charges	7,250	-	-	-
Rent	900	900	900	-
Operating transfers to General Fund	-	19,971	19,971	-
Total expenditures	25,000	24,877	25,037	(160)
Excess of Expenditures Over Revenue	-	-	(666)	(666)
Fund Balance - March 1, 2005	30,834	30,834	30,834	-
Fund Balance - February 28, 2006	<u>\$ 30,834</u>	<u>\$ 30,834</u>	<u>\$ 30,168</u>	<u>\$ (666)</u>



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May 11, 2006

To the Members of Agency Board
Chelsea Area Construction Agency
18027 Old U.S. 12, Suite 100
Chelsea, Michigan 48118

Dear Board Members:

We have recently completed our audit of the financial statements of the Chelsea Area Construction Agency for the year ended February 28, 2006. As a result of our engagement, we offer the following comments and recommendations for your consideration. For your information, we have also provided certain legislative issues that could affect the Agency.

Comments on Financial Results/Planning/Controls

Overall Results - The Agency's General Fund fund balance decreased during the fiscal year by approximately \$233,000, due entirely to the purchase of land and consulting services related to the Agency's future new home. As of February 28, 2006, fund balance in the General Fund totals approximately \$411,000. Since the Agency is moving forward with plans to build a new facility, the fund balance is essential to the Agency's health and long-term planning. The fund balance will also help the Agency level out the financial impact of peaks and valleys in the construction activity of the area. We again encourage the Agency to take a more formal step in regard to planning by developing a five-year financial plan for the General Fund which would integrate the capital improvement plan and project the ability of the Agency to maintain or improve services to the residents under various revenue assumptions. We would be happy to help with these plans and templates to the extent needed.

Construction Funding

Generally, governmental entities have limited options for obtaining financing. It is our understanding that some form of financing will be obtained in order to begin construction of the Agency's new facility. Currently, the interlocal agreement through which the Agency was formed does not specifically give the Agency the power to obtain financing. We understand that the Agency is currently going through the process of amending the original interlocal agreement. In addition, it is our understanding that legal counsel is currently investigating whether or not it is lawful for the Agency to proceed with financing. The conclusions reached on these various items will have an impact on the timing of construction, as well as the overall cost of the project.



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May 11, 2006

Budget Variances

Although the Agency amended the General Fund budget late in the year and changed the budgeting method from a "line item" to a "total fund" budget, the total actual expenditures still exceeded budgeted expenditures. We encourage the Agency to continue to monitor expenditures and appropriately amend these budgets to maintain compliance with State budget regulations.

Formalization of Various Policies

As the Agency continues to grow and as board membership may change over time, it is important that the various Agency policies are written and formally adopted by the board to ensure continuity and consistency. We commend the Agency for officially adopting several of the policies we suggested last year. We recommend the Agency continue to formalize and adopt written policies such as for allowable investments (as required by Michigan Public Act 196 of 1997) and record retention.

We would like to thank the Agency staff for the cooperation we received in completing this year's audit. Please contact us if you have any questions or comments related to our suggestions, or if we can be of any help in their implementation.

Very truly yours,

Plante & Moran, PLLC



David H. Helisek



Brian J. Camiller

DHH/BJC:bb